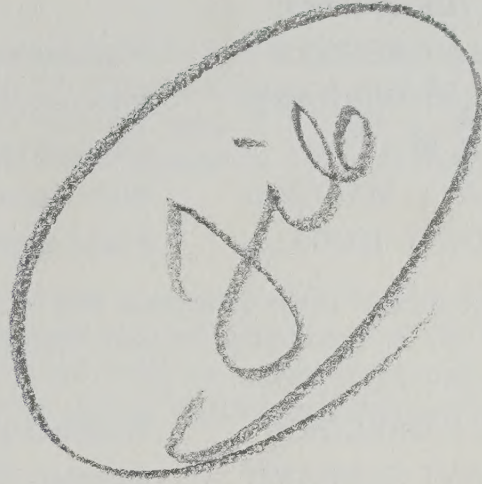


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GREGORY INDUSTRIES LIMITED



ANNUAL REPORT

1972

GREGORY INDUSTRIES LIMITED

and Subsidiary Companies

BOARD OF DIRECTORS:

PETER J. GREGORY	Vancouver, B.C.
W. GRANT GERRARD	Vancouver, B.C.
JOHN D. BEATY	Vancouver, B.C.
GEORGE L. MALPASS	West Vancouver, B.C.
GEORGE M. TIDBALL	Fort Langley, B.C.

OFFICERS:

PETER J. GREGORY	President and Chief Executive Officer
W. GRANT GERRARD	Secretary-Treasurer and Chief Financial Officer
GEORGE L. MALPASS	Executive Vice-President and General Manager
JOHN D. BEATY	Vice-President

TRANSFER AGENT AND REGISTRAR:

The Canada Trust Company, Vancouver, B.C.

SHARES LISTED:

Vancouver Stock Exchange

BANKER:

The Royal Bank of Canada

SOLICITORS:

McTaggart Ellis Melvin Cocking Martin and McDonald, Vancouver, B.C.

AUDITORS:

Peat, Marwick, Mitchell & Co., Vancouver, B.C.

HEAD OFFICE:

9355 Alaska Way, Delta, B.C.

TO OUR SHAREHOLDERS

Record Results

I am very pleased to report to you a Company record sales volume and record net earnings for the year ended December 31, 1972. Sales were \$7,370,800 compared with \$5,711,102 for the previous year 1971, an increase of 29%. Net earnings were \$271,980 or 29¢ per share compared with \$205,350 or 24¢ per share (on fewer issued shares) for 1971, an increase of 32%.

Production Increase

Lumber production for 1972 was 70,883,000 FBM compared with 70,204,000 FBM for 1971. These results were achieved despite a prolonged loss of production at the Company's sawmills caused by the International Woodworkers of America union strike and severe log shortages throughout 1972 caused by the I.W.A. fallers dispute which lasted six months.

New Financing and Improved Facilities

After the public issue of common shares, in May 1972, had increased the equity base of the Company, long term financing in the amount of \$1,280,000 was arranged under favorable terms with The Royal Bank of Canada in September 1972. The purpose of this loan was to improve existing sawmill facilities, to construct a new planer mill and to construct a new head office, all at the Company's Tilbury Island, Delta, B.C. site. The Company also refinanced some existing debt which was at higher interest rates. The sawmill improvements were completed during the fourth quarter of 1972 with the desired benefits to be reflected through lower per unit costs and record production levels starting in the first quarter of 1973.

1973 Production

Total production of the Company's existing plants for 1973 is expected to reach 100,000,000 FBM, which is a 41% increase over 1972, due largely to the completed improvements in sawmill facilities.

New Planer Mill and Head Office

The new planer mill construction is nearing completion and its effect on reducing costs will begin to improve Company earnings during the second quarter of 1973. The new Company head office is expected to be ready for occupancy during the fourth quarter of 1973. It will allow for centralization of all administrative and top management personnel resulting in increased efficiency.

Sawmill Expansion

Interest in the general Prince Rupert Forest District area including Bella Coola remains strong. The Company is, however, awaiting the Provincial Government's policy decision regarding allocation of timber in the area.

New Markets

During 1972, the Federal Department of Industry Trade and Commerce approved the Company's application for a grant under their Export Market Development Program to conduct a

GREGORY INDUSTRIES LIMITED

and subsidiary companies

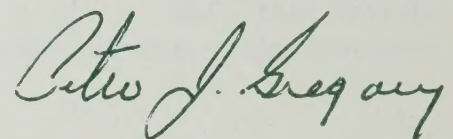
market identification study in Japan. The first trip to Japan under this program was made during March 1973 and the data obtained is now being analyzed. It appears at this stage that the Japanese requirements for lumber and other forest products represent significant long term market and product diversification opportunities for the Company. When this study is completed, final decisions regarding expansion by way of new productive capacity will be made.

Outlook

Management made significant progress during 1972 to expand the earnings base of existing plants, to profitably utilize available sources of financing and to identify new areas for expansion. Market conditions throughout 1973 should remain at least comparable to 1972 and this combined with increased production and lower per unit costs is expected to result in record earnings for 1973.

The Company's growth to date is a result of the combined efforts of production, administration and management personnel, which are sincerely appreciated. The talent, imagination and hard work of all employees will enable the Company to continue to improve growth and profitability in future.

Respectfully submitted on behalf of the Board,

A handwritten signature in dark ink, reading "Peter J. Gregory". The signature is written in a cursive, flowing style with a large initial "P".

April 4, 1973.

Peter J. Gregory,
President.

GREGORY INDUSTRIES LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF EARNINGS AND EARNINGS REINVESTED IN THE BUSINESS

Year Ended December 31, 1972

(With comparative figures for 1971)

	<u>1972</u>	<u>1971</u> (restated)
SALES	\$7,370,800	\$5,711,102
EXPENSES AND CHARGES:		
Cost of lumber sold, selling and administration	6,552,260	5,011,183
Depreciation	153,705	143,723
Amortization of deferred expenses	12,244	12,186
Interest on long-term debt	93,624	86,184
Other interest	36,733	44,317
	<u>6,848,566</u>	<u>5,297,593</u>
EARNINGS BEFORE INCOME TAXES	522,234	413,509
INCOME TAXES (Note 7):		
Current	200,664	66,834
Deferred	49,590	141,325
	<u>250,254</u>	<u>208,159</u>
NET EARNINGS	271,980	205,350
EARNINGS PER SHARE (Note 9)	<u>\$.29</u>	<u>\$.24</u>
EARNINGS REINVESTED IN THE BUSINESS AT BEGINNING OF YEAR (Note 7)	<u>316,869</u>	<u>111,519</u>
EARNINGS REINVESTED IN THE BUSINESS AT END OF YEAR	<u>\$ 588,849</u>	<u>\$ 316,869</u>

See accompanying notes to consolidated financial statements.

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ASSETS

	<u>1972</u>	<u>1971</u> (restated)
CURRENT ASSETS:		
Cash	\$ 26,619	\$ 3,515
Accounts receivable	427,080	564,286
Inventories (Note 3)	1,539,469	933,167
Prepaid expenses	86,063	35,335
Sundry deposits	35,185	16,060
Total current assets	<u>2,114,416</u>	<u>1,552,363</u>
 DUE FROM ACORN TIMBER LTD. (Note 2)	 —	 153,079
 FIXED ASSETS, AT COST LESS DEPRECIATION:		
Buildings, on leased land	542,402	355,096
Equipment	1,685,365	1,197,073
	<u>2,227,767</u>	<u>1,552,169</u>
Less accumulated depreciation	550,319	388,879
	<u>1,677,448</u>	<u>1,163,290</u>
 DEFERRED EXPENSES, LESS AMOUNTS AMORTIZED:		
Financing	7,709	9,056
Predevelopment and start-up expenses (Note 4)	144,224	43,587
	<u>151,933</u>	<u>52,643</u>
	<u>\$3,943,797</u>	<u>\$2,921,375</u>

See accompanying notes to consolidated financial statements.

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Arthur J. Gregory Director

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BALANCE SHEET

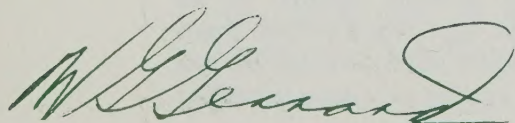
31, 1972

(figures for 1971)

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>1972</u>	<u>1971</u> (restated)
CURRENT LIABILITIES:		
Bank loan (Note 5)	\$ 375,000	\$ 400,000
Accounts payable and accruals	877,686	897,847
Income and logging taxes payable	260,259	57,915
Long-term debt due within one year (Note 6)	135,898	168,458
Total current liabilities	<u>1,648,843</u>	<u>1,524,220</u>
LONG-TERM DEBT (Note 6)	1,124,268	896,039
DEFERRED INCOME TAXES (Note 7)	232,837	183,247
SHAREHOLDERS' EQUITY:		
Share capital (Note 8):		
Common shares of no par value.		
Authorized 2,040,000 shares.		
Issued 1,000,000 shares	349,000	1,000
Earnings reinvested in the business	588,849	316,869
Total shareholders' equity	<u>937,849</u>	<u>317,869</u>
COMMITMENTS (Note 11)		
	<u>\$3,943,797</u>	<u>\$2,921,375</u>

the Board:



Director

GREGORY INDUSTRIES LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year Ended December 31, 1972

(With comparative figures for 1971)

	<u>1972</u>	<u>1971</u> (restated)
SOURCE OF FUNDS:		
From current operations:		
Net earnings	\$ 271,980	\$ 205,350
Depreciation	153,705	143,723
Amortization of deferred expenses	12,244	12,186
Deferred income taxes	49,590	141,325
Funds provided by operations	487,519	502,584
Funds per share provided from operations	<u>\$.52</u>	<u>\$.59</u>
Sale of fixed assets	8,940	—
Long-term debt financing	718,528	182,160
Issue of shares	348,000	—
Funds acquired through purchase of Acorn Timber Ltd. .	9,019	—
Total funds provided	<u>1,572,006</u>	<u>684,744</u>
APPLICATION OF FUNDS:		
Purchase of fixed assets	603,837	373,315
Reduction in long-term debt	521,624	—
Predevelopment and start-up expenditures	9,115	—
Advances to Acorn Timber Ltd. (Note 2)	—	66,438
Deferred financing expenditures	—	5,025
Total funds applied	<u>1,134,576</u>	<u>444,778</u>
INCREASE IN WORKING CAPITAL	437,430	239,966
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR	<u>28,143</u>	<u>(211,823)</u>
WORKING CAPITAL AT END OF YEAR	<u>\$ 465,573</u>	<u>\$ 28,143</u>

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Gregory Industries Limited and subsidiary companies as of December 31, 1972 and the consolidated statements of earnings and earnings reinvested in the business and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which, except for the change in the basis of providing for income taxes as explained in Note 7, have been applied on a basis consistent with that of the preceding year.

GREGORY INDUSTRIES LIMITED

and subsidiary companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1972

1. CHANGE OF NAME:

In April 1972, the name of the company was changed from Acorn Forest Products Ltd. to Gregory Industries Limited and the name of the subsidiary, Acorn Lumber Ltd. was changed to Acorn Forest Products Ltd.

2. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, including Acorn Timber Ltd. which was acquired on March 13, 1972. All material inter-company transactions have been eliminated.

3. INVENTORIES:

These have been valued as follows:

	<u>1972</u>	<u>1971</u>
Logs, at cost	\$ 596,097	\$ 330,650
Lumber, at lower of cost or net realizable value	901,120	534,839
Chips, at net realizable value	40,065	65,228
Sawdust, at net realizable value	2,187	2,450
	<u>\$1,539,469</u>	<u>\$ 933,167</u>

4. PREDEVELOPMENT AND START-UP EXPENSES:

	<u>1972</u>	<u>1971</u>
Start-up expenses	\$ 32,690	\$ 43,587
Predevelopment expenses	111,534	—
	<u>\$ 144,224</u>	<u>\$ 43,587</u>

- (a) The start-up expenses are being amortized over 5 years at \$10,897 per annum.
(b) The pre-development expenses will be amortized on the basis of logs produced.

5. BANK LOAN:

The bank loan is secured by an assignment of accounts receivable and a charge on inventories, together with a floating charge debenture on all assets.

GREGORY INDUSTRIES LIMITED

and subsidiary companies

6. LONG-TERM DEBT:

Due to officers and directors:

Subordinate debenture, Series "C", repayable on demand together with interest at the rate of 9%; secured by a floating charge on all assets subordinate to the security on the loan agreements and debenture	\$ 150,000
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Due to others:

Loan agreements payable, maturing at various dates to December 15, 1981 at varying interest rates from 11.25% to 12.75%	308,400
Debenture, repayable in varying monthly instalments with interest at bank prime rate plus 2.5% due in 1980	710,000
Bank business improvement loan, repayable in semi-annual instalments of \$1,250 plus interest at 8%; secured by a specific piece of equipment	20,000
Other indebtedness and conditional sales contracts, repayable in varying monthly instalments at interest rates varying from 8% to 18% to November 1975, secured by charges on certain equipment	71,766
	<hr/> 1,260,166
Long-term debt due within one year	135,898
Long-term debt	<hr/> <u>\$1,124,268</u>

The loan agreements and debenture are secured by first and second fixed charges on certain assets and first and second floating charges on all other assets.

Maturities of long-term debt for the next 5 years are as follows:

1973	\$ 135,898
1974	145,376
1975	133,337
1976	140,246
1977	145,612
	<hr/> <u>\$ 700,469</u>

7. DEFERRED INCOME TAXES:

During the year ended December 31, 1972 the company, which previously used the taxes payable basis for accounting for taxes on income, adopted the tax allocation basis and accordingly, the net earnings for the year 1972 are less than the amount which would have been reported if the previous basis had been used. The statement of earnings for the previous year has been restated to place it on a comparable basis with the current year, with a consequent reduction in the reported earnings for that year of \$141,325. The tax allocation balances accumulated prior to the current year amounting to \$183,247 have been recorded as charges to earnings and earnings reinvested in the business in 1971.

GREGORY INDUSTRIES LIMITED

and subsidiary companies

8. SHARE CAPITAL:

The following occurred during the year:

- (a) The authorized share capital of the company was increased from 10,000 common shares of no par value to 2,040,000 common shares of no par value.
- (b) The 1,000 issued common shares at December 31, 1971 were subdivided into 850,000 common shares of no par value.
- (c) 150,000 common shares of no par value were issued for a cash consideration of \$348,000.

Under the loan agreements 30,928 common shares are reserved for issue, at the lender's option, at a price equal to 3% of six times three years' average earnings commencing with 1971.

9. EARNINGS PER SHARE:

The earnings per share have been computed on the basis of the weighted average number of shares outstanding during the years 1971 and 1972 and have been calculated to reflect the subdivision of the common shares in 1972. Fully diluted earnings per share are not materially different from basic earnings per share.

10. RESTRICTIONS ON CASH DIVIDENDS:

Under the terms of certain of its financing agreements, the company is restricted from payment of dividends until the debenture and loan agreements (Note 6) are repaid.

11. COMMITMENTS:

The company and its subsidiaries are obligated under long-term lease agreements for aggregate basic annual rentals of approximately \$182,000, \$153,000, \$130,000, \$90,000 and \$46,000 in each of the years ending December 31, 1973 to 1977 respectively.

The company has arranged for further financing of \$570,000 to complete capital construction commenced in 1972.

Subsequent to the year end the company agreed to purchase certain land, which it currently leases, for approximately \$406,000. Of this amount, \$100,000 is to be paid in 1973 with the balance to be financed by a 20 year mortgage with interest at 9%.

12. REMUNERATION OF DIRECTORS:

The remuneration of directors amounted to \$109,500 for the year (1971 – \$108,000).

